

Message Text

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ACTION EB-03

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INFO AMEMBASSY BONN

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AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

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AMEMBASSY TRIPOLI

C O N F I D E N T I A L ROME 9273

LIMDIS

E.I. 11652: GDS

TAGS: ENRG, IT, LY

SUBJECT: ENI AND LIBYAN SITUATION

1. SUMMARY: ENI AND ESSO OFFICIALS INDICATE FORMER ALREADY BEING REQUESTED BY LIBYANS PROVIDE ASSISTANCE IN LIKELY EVENT MAJORS WALK AWAY FROM THEIR FIELDS RATHER THAN AGREE 51 PERCENT NATIONALIZATION. THESE OFFICIALS STATE ENI WOULD RATHER NOT BECOME INVOLVED BUT HAS LOT AT STAKE IN LIBYA AND IS VULNERABLE.

2. FOLLOWING IMPRESSIONS DEVELOPED FROM SEPT 6 AFTERNOON OF DISCUSSIONS OF BENNSKY (DIRECTOR FSE) AND EMBOFF SEPARATELY WITH (A) ESSO (ITALY) PRESIDEN SALA AND DIRECTOR PLANNING LIOTTA AND (B) ENI DIRECTOR PLANS AND PROGRAMS SFLIGIOTTI AND EXTERNAL
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RELATIONS OFFICIAL SANTORO. LIBYAN DEVELOPMENTS WERE FOCUS THESE

CONVERSATIONS, THOUGH SIGNIFICANT TIME WAS SPENT ON POSSIBILITIES AND OBSTACLES TO COOPERATION BETWEEN CONSUMERS AND WITH PRODUCERS (SAUDI ARABIA'S PRODUCTION PROSPECTS BEING OF CENTRAL CONCERN AS THEY WERE IN BENNSKY'S BRUSSELS AND BONN TALKS). REQUEST PROTECTION SOURCES SO THEY WILL REMAIN AS OPEN IN FUTURE.

3. ENI WOULD PREFER STAY OUT OF ANY INVOLVEMENT WITH PROPERTIES OF MAJORS RECENTLY 51 NATIONALIZED BY LIBYA. IT WELL AWARE FROM OWN EXPERIENCE HOW DIFFICULT LIBYANS ARE TO WORK WITH AND OF OTHER DETRIMENTAL ASPECTS LIBYA AS OIL SUPPLY SOURCE. ALSO, AS AN INTEGRATED INTERNATIONAL OIL COMPANY ITSELF, ENI RECOGNIZES DANGERS OF UNILATERAL LIBYAN STYLE REVISION OF AGREEMENTS. IT SEES THE PRICE ESCALATION PROSPECTS TOO, BUT IS RESENTFUL THAT MAJORS WILL LIKELY MAKE OUT ALL RIGHT, PASSING ON INCREASES TO CUSTOMERS AND UPPING THEIR ALREADY HIGH PROFITS, WHILE ENI, CAUGHT IN INTERNAL POLITICAL BLOCKAGE AGAINST PRODUCT PRICE RISES, WILL SUFFER EVEN LARGER DEFICITS. (ESSO OFFICIALS HAD NOTED THIS STRONG CRITICISM AGAINST MAJORS IN ENI, THE GOVERNMENT AND THE PUBLIC OF ITALY. ENI ALSO PUTS BLAME FOR LIBYA AND OTHER EXPORTERS BEING ABLE SUSTAIN HIGHER AND HIGHER PRICES FOR CRUDE ON WILLINGNESS NEW COMERS TO MARKET--I.E., AMERICANS AND JAPANESE--TO PAY WHATEVER IS ASKED.

4. ON OTHER HAND, ENI HAS MUCH AT STAKE IN LIBYA. ITS OIL DEVELOPMENT PROGRAM THERE IS NOW PAYING OFF IN FAST EXPANDING PRODUCTION. LIBYAN CRUDE WILL REPRESENT 30 PERCENT OF ENI'S OIL PRODUCTION IN 1973 (ESSO ESTIMATES), A SUBSTANTIAL RISE OVER THE 9 PERCENT OF 1972, AND IS EXPECTED TO REMAIN AS HIGH AS THIS OR POSSIBLY GO HIGHER. IF THE SITUATION DEVELOPS TO POINT THAT LIBYANS CAN LEAN ON THEM HARD ENOUGH, THEN PROTECTION THIS IMPORTANT IRREPLACEABLE ASSET WILL BECOME KEY FACTOR. DIFFICULT SAY JUST WHAT THIS SITUATION WILL BE, BUT CLEAR THAT REAL PRESSURE ON LIBYANS OBTAIN OUTSIDE HELP WILL COME IF AND WHEN MAJORS ABANDON THEIR FIELDS.

5. ALREADY THERE INDICATIONS OF LIBYAN EFFORTS GAIN ASSISTANCE. ESSO OFFICIALS SAY ENI TURNED DOWN LIBYAN REQUEST IT OPERATE ESSO'S LIBYAN GAS PLANT ON GROUNDS IT NOT INTERESTED AND IN ANY CASE DID NOT HAVE REQUIRED PERSONNEL RESOURCES. SANTORO SAID HIS SUPERIOR LANDOLFI (WHO WAS SCHEDULED SEE BENNSKY BUT WAS CALLED TO MEETING WITH ENI PRESIDENT) HAD JUST RETURNED FROM CONFIDENTIAL

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TRIPOLI.

6. SANTORO, WHO SPOKE VERY CAREFULLY THROUGHOUT CONVERSATION, ON TWO OCCASIONS STATED HE WAS SETTING FORTH ENI'S RATIONALE AND MOTIVATIONS RE LIBYAN DEVELOPMENTS. IT WAS, HE ADDED, UP TO BENNSKY TO MAKE HIS OWN DEDUCTIONS.

7. COMMENT: THE DEDUCTION IS NOT HARD MAKE. ENI IS VULNERABLE AND

KNOWS IT. IT DOES NOT WANT TO GET INVOLVED,; AT LEAST IN THE EARLY STAGES OF THIS UNSETTLING SHIFT IN THE INTERNATIONAL OIL MARKET. BUT ONCE AGAIN, AS ALWAYS, IT FEELS THE LONLINESS OF ITS POSITION IN THE INTERNATIONAL OIL BUSINESS. IT FELT THIS WAY WHEN LIBYA ISOLATED AND PRESSURED IT INTO GIVING UP 50 PERCENT YEAR AGO AT THAT TIME, ENI HAD THROUGH EXPOLORATION TURNED UP IMPORTANT RESERVES OF WAXY BUT LIGHT, LOW SULPHUR CRUDE BUT REQWUIRED LIBYAN AGREEMENT TO BRING IT TO PRODUCTION. (ESSO OFFICIALS HERE SAY ENI GAVE IN MOST RELUCTANTLY TO THIS FORST OF THE LIBYAN TAKEOVERS.) IT DOES NOT SEE WHY WHEN THE CHIPS FALL IT SHOULD PLAY THE HERO FOR THE MAJORS OR ANYONE ELSE.

8. A FACTOR IN THIS EQUATION THAT WILL BE EXPLORED FURTHER DODAY IN TALKS BETWEEN BENNSKY AND MIN IND AND MIN FIN OFF OFFICIALS IS VIEW OF ITALIAN GOVERNMENT. THIS MAY BE MORE IMPORTANT INFLUENCE ON ENI THAN IN PAST DUE CAMPAIGN, ROOTED IN ITALIAN DOMESTIC POLITICS, THAT HAS RECENTLY BEGUN AGAINST ENI PRESIDENT GIROTTI, WHICH SAID BE WEAKENING DIRECTION OF THE POWERFUL AUTONOMOUS STATE ENTERPRISE. HOWEVER, ESSO OFFICIALS FELT GOVERNMENT WAS SO CONCERNED ABOUT PROSPECT OF SERIOUS FUEL OIL SHORTAGE THIS WINTER THAT ITS PRIME MOTIVATION WOULD BE SUPPLIES AT ANY PRICE (EXPECIALLY SINCE THEY BLOCKED FROM PASSAGE ON TO CONSUMER.

9. COMMENT: MAJOR FACTOR IN ITALIAN GOVERNMENT POSITION WILL BE DEGREE OF ASSURANCE OF SUFFICIENT REPLACEMENT CRUDE BEING SUPPLIED.

ESSO SPOKESMAN WERE PESSIMISTIC IN THIS REGARD. CHANCES CONCERTED EUROPEAN CONSUMER BLOCKADE OF CONTESTED LIBYAN CRUDE CONSIDERED VERY LOW. AS FOR DETERRENT EFFECTS LEGAL PROCEEDINGS BY MAJORS, REFERENCE WAS MADE TO ITALIAN LOWER COURT'S DECISION AGAINST PB AS UNDERTAINTY.

10. SPEAKING OF PROSPECTS FOR EFFECTIVE MULTILATERAL COOPERATION WITHIN EC AND BETWEEN EC AND US AND JAPAN AND BETWEEN THESE CONSUMERS
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AND THE IMPORTANT OIL EXPORTERS, ENI SPOKESMEN WEREMOST SKEPTICAL. THEY DID NOT THINK CONSUMER GOVERNMENTS WERE READY TO MAKE THE POLITICAL AND ECONOMIC DECISIONS AND COMMITMENTS NECESSARY TO GET COORDINATED RESPONSES TO THESE COMPLEX PROBLEMS, INVOLVING AS THEY DO VERY DIFFERENT INTERNAL POLITICAL AND TRADE AND MONETARY POLICY DECISIONS. THEREFORE, THEY NOTED, THE
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